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Brazil

Food Processing Ingredients

2010

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Report Highlights:

The Brazilian food processing industry was valued at US\$ 173 billion in 2009. Analysts expect that the market will increase 4.0 to 4.5 percent in the next five years. This increase is driven by key market indicators such as higher income levels, single-living trends, health and wellness concerns.

Post:

Sao Paulo ATO

SECTION I. MARKET SUMMARY

A. Market Overview

The food processing industry is the second largest sector among manufacturing industries in Brazil. According to the Ministry of Labor and Employment (MTE), the industry employs 1.4 million people in 38,486 establishments. In 2009, approximately 15,000 jobs were created in the sector. The Brazilian Food Processors' Association (ABIA) reported that in the same year net revenue totaled approximately 173 billion dollars, an 8 percent increase compared to the previous year. Food and beverage industries made up 85 percent and 15 percent, respectively, of this total.

Brazilian Food Processing Industry Net Revenue (R\$ Billion)					
	2005	2006	2007	2008	2009
Food Industry (A)	169.5	178.7	197.0	230.0	246.6
Beverages Industry (B)	26.2	29.9	34.3	39.0	45.0
Food Processing Industry (A+B)	195.7	208.6	231.3	269.0	291.6

Source: Brazilian Food Processors' Association (ABIA)

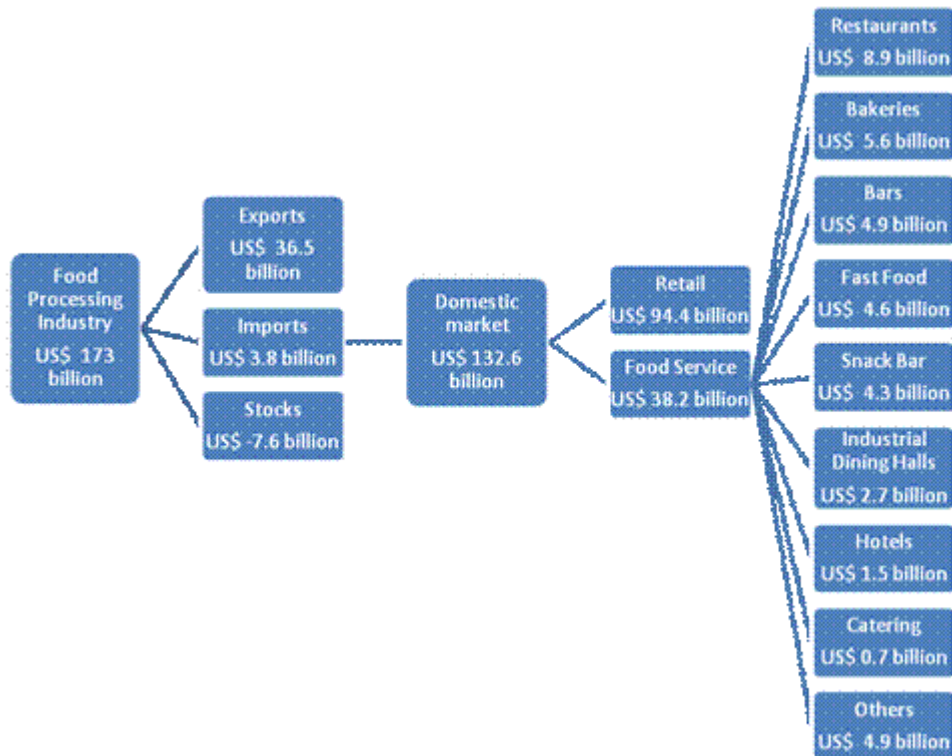
Brazilian Food Processing Industry Net Revenue (US\$ Billion)					
	2005	2006	2007	2008	2009
Food Industry (A)	100.5	106.0	116.8	136.4	146.3
Beverages Industry (B)	15.5	17.7	20.3	23.1	26.7
Food Processing Industry (A+B)	116.1	123.7	137.2	159.5	173.0

Source: Brazilian Food Processors' Association (ABIA)

Note: Exchange rate in December 3rd, 2010: US\$1 = R\$ 1.6860

Regarding distribution channels, the domestic market represented 77 percent of total net revenue in 2009, totaling 132.6 billion dollars, which includes US\$ 3.7 billion of imports. Retail and food service sectors accounted for 71 percent and 29 percent, respectively, of total sales in the domestic market. The biggest food service buyers are restaurants and bakeries.

INDUSTRY SALES BY DISTRIBUTION CHANNELS

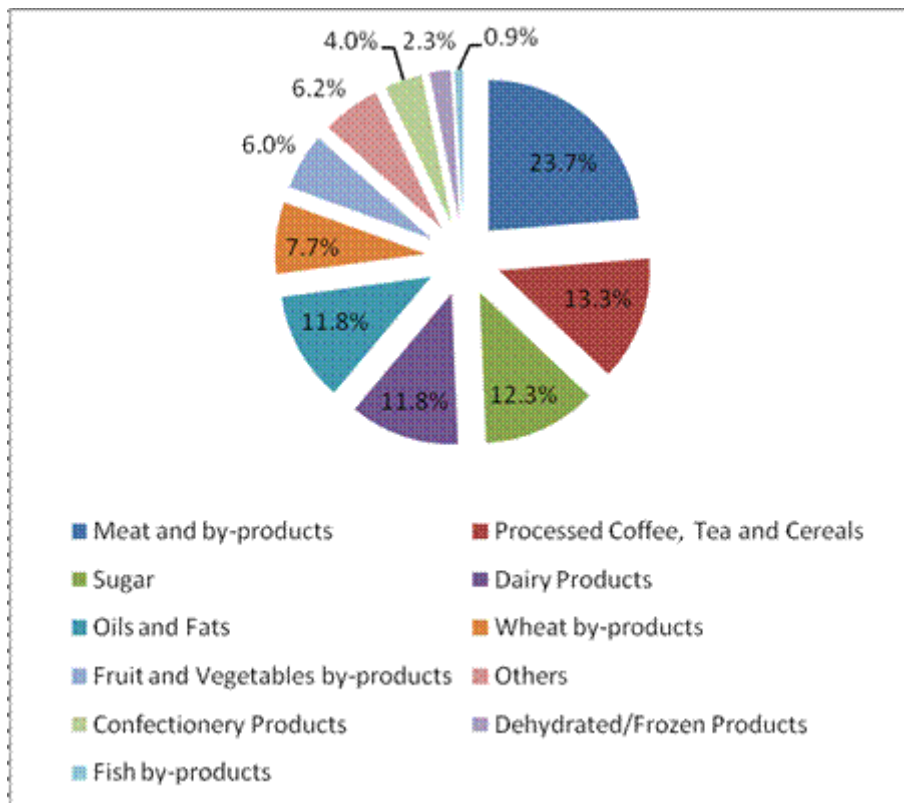


Source: Brazilian Food Processors' Association (ABIA).

Note: A negative value of stocks (USD \$6 billion) is reflected due to the financial crisis in the first quarter of 2009.

The meat and by-products sector was the most lucrative processing industry in 2009, churning out to US\$ 34.4 billion in sales. Coffee, tea and cereals ranked second accounting for US\$ 19.5 billion. The sugar industry ranked third, with a significant increase compared to 2008. In 2009, sugar sales increased 90 percent due to higher exports value. Compared to 2008, the number of food items in the food industry remained unchanged in 2009.

SHARE OF FOOD ITEMS IN SALES OF THE BRAZILIAN FOOD INDUSTRY



Source: Brazilian Food Processors' Association (ABIA).

Industry analysts estimate that in 2010, the food processing industry will increase 5 percent in volume. In the next five years, growth estimates are of 4-4.5 percent per year, which is above the 3.3 percent average for the past ten years. In addition, analysts estimate that the growth value will range from 5.5 to 6 percent per year in the next five years. These estimates will favor ingredients imports since Brazilian industries will search for new solutions, such as new technologies for ingredients, in order to meet higher demand.

B. Domestic Companies

According to Exame Magazine¹, of the top 10 leading companies in the food processing industry, 6 are multinational: Ambev, Bunge, Cargill, Unilever, Nestlé and ADM. The other four are Brazilian companies (Sadia, Brasil Foods, Copersucar and JBS). Sales by multinational totaled approximately US\$45 billion while sales by Brazilian companies totaled US\$ 20 billion.

¹ Exame Magazine is a well-known publication which annually reports the rank of the 500 largest companies in Brazil (Maiores e Melhores).

C. Key Market Drivers

The key market drivers for the food processing industry in Brazil include:

- **Higher income levels:** In the last five years, Brazil has been going through a period of stability and prosperity. This prosperous moment has advantaged a large number of Brazilian consumers, who were able to elevate then from D class (incomes up to US\$ 630 per month) to C class (incomes ranging from US\$ 631 to US\$ 2,723 per month). According to industry analysts, the C class category represents more than 50 percent of food consumption. Higher income levels increased the consumption of dairy products, cookies, snacks and toast bread. These products have larger value added than rice, beans and other products which are consumed by individuals with lower levels of income. As a result of total value added growth, profitability increased TO the food processing industry.
Brazil's growth potential for food consumption is much larger when considering that Brazil faces the demographic bonus, which will represent the highest level of Economically Active Population (EAP) by 2030. This level represents the largest number of individuals in the workforce.
- **Singles trend:** The number of people living alone in metropolitan areas in Brazil has been growing in the last few years. In the city of Sao Paulo – the largest metropolitan area in Brazil – singles accounted for 12 percent of all households. This group of people looks for wellness and convenience in food consumption. A recent study done by the Federation of Industries in the State of Sao Paulo (FIESP) shows that with the increase in the number of singles, the average time to prepare a meal has changed from two hours to fifteen minutes. This decrease in time is a result of a large number of individuals in the workforce. This new consumer looks for pre-prepared food in small quantities. As a result the pre-prepared food sector was the largest growth area in 2009, especially tomato sauce, which had a sales increase of 10 percent.
- **Health and wellness:** Brazilian consumers are more concerned with health and wellness. This trend is reflected in food consumption habits. The FIESP study reported that 23 percent of people interviewed attempt to include healthy food in their diet. According to industry sources, the functional foods market increases 25 percent per year. Healthy and functional foods markets have a high added value, which also increases profitability in the food processing industry.

Some key advantages and challenges for U.S. food products include:

Advantages	Challenges
Large industry growth increasing the demand for new solutions, which will benefit imported ingredients	Competition with low-cost Chinese ingredients
U.S. ingredients are considered high quality and innovative by the food processing industry	Brazilian companies are used to importing small quantities. However, U.S. companies are not always willing to sell in such small quantities
Brazilian authorities are improving import procedures to facilitate products clearance at the port	U.S. exporters are not familiar with Brazilian import requirements which causes apprehension among some of them
The favorable economic climate, which includes favorable exchange rates and increased income levels	Overcome high tariffs and transportation costs. Mercosul member countries enjoy duty free status

SECTION II. ROAD MAP FOR ENTRY

A. Entry Strategy

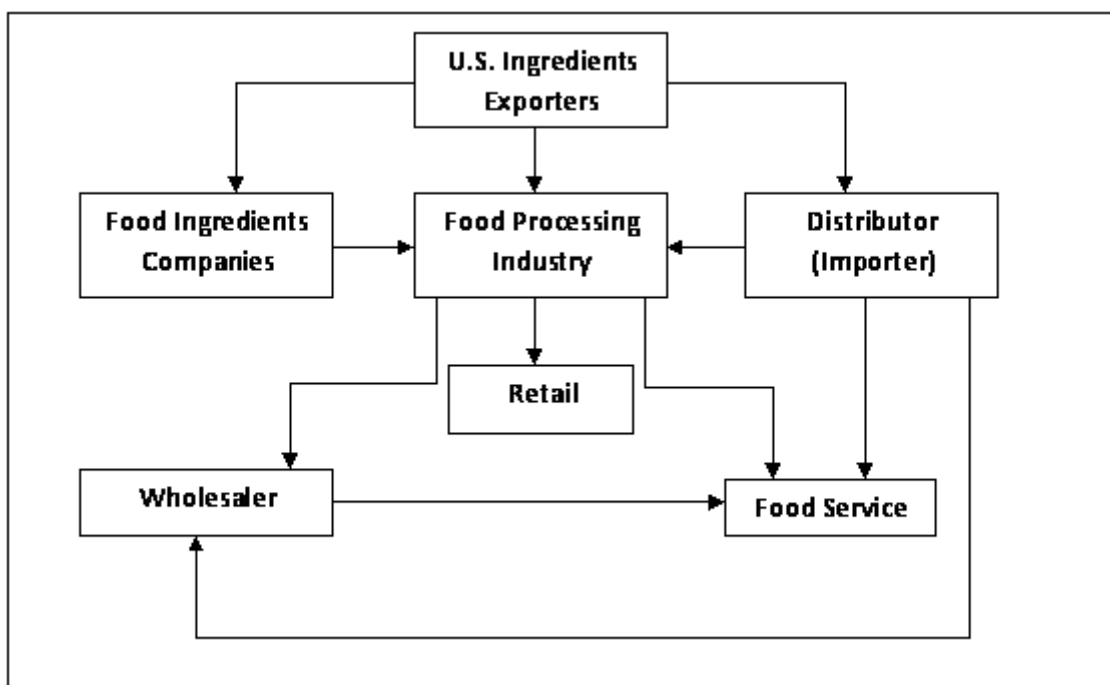
There are two ways for entry into the food processing industry in Brazil. The first is through food ingredients companies. In general, the ingredients used by the food processing industry are supplied by national companies that look for raw materials in the domestic and international markets. The second way is through importers/distributors of food additives. Despite the fact that Brazilian food additives and ingredients costs are lower than U.S. products, exporters should benefit from the favorable economic conditions and focus on food processing companies interested in improving product quality. Nonetheless, U.S. companies should be aware that products imported from Mercosul members (Argentina, Uruguay and Paraguay) enjoy duty-free status and Chilean products face a reduced duty rate.

In addition, U.S. companies must check Brazilian regulations and requirements before entering the market. ATO Sao Paulo is an initial source of information and market guidance. The ATO maintains direct contact with the major players in order to facilitate market entry and is also able to provide assistance on Brazilian legislation and standards for imported goods. Food and beverages are under the jurisdiction of Ministry of Health (MS) and Ministry of Agriculture, Livestock and Food Supply (MAPA). Please refer to FAIRS 2010 (BR10012) in order to obtain additional information about Brazilian regulations.

B. Market Structure

The Brazilian food processing industry supplies various markets such as retailers, food service – which includes hotels, restaurants, bakeries, industrial dining halls, etc. – wholesalers and other food processors. The following figure is a basic flowchart showing how U.S. ingredients may enter into the Brazilian market.

FOOD PROCESSING INDUSTRY DISTRIBUTION



C. Company Profile

In 2009, the gross sales of the top 20 food processing companies listed by Exame Magazine, totaled approximately US\$82.3 billion and accounted for approximately 48 percent of the industry gross output of US\$173 billion. Although this publication provides information about the food processing industry, it does not reflect market totality since some multinationals and Brazilian companies are not included. The rank is based on voluntary responses.

Rank	Company	Product Type	Gross Sales (US\$ Million)	Capital Origin	End-Use Channels
1	Ambev	Beverages	15,723	Belgium	Retail, HRI
2	Bunge	Ingredients, oilseed products, dairy products,	9,747	Netherlands	Food Industry, Retail, HRI
3	Cargill	Ingredients, oilseed products, sugar	8,406	United States	Food Industry, Retail, HRI
4	Sadia	Meat and by-products, dairy products, prepared meals	6,495	Brazil	Retail, HRI
5	Brasil Foods	Meat and by-products, dairy products, prepared meals	5,992	Brazil	Retail, HRI
6	Unilever*	Beverages, dairy products, condiments, prepared meals	4,684	United Kingdom - Netherlands	Retail, HRI
7	Copersucar*	Sugar	4,047	Brazil	Food Industry, Retail, HRI
Rank	Company	Product Type	Gross Sales (US\$	Capital Origin	End-Use Channels

			Million)		
8	JBS	Meat and by-products, dairy products, prepared meals, food ingredients, prepared vegetables	3,376	Brazil	Food Industry, Retail, HRI
9	Nestlé	Confectionary products, dairy products, baked goods, beverages, prepared meals	3,356	Switzerland	Retail, HRI
10	ADM	Ingredients, oilseed products	3,295	United States	Food Industry
11	Kraft Foods	Confectionary products, dairy products, baked goods, beverages, prepared meals	2,676	United States	Retail, HRI
12	Coamo	Ingredients, dairy products, oilseed products	2,573	Brazil	Food Industry, Retail, HRI
13	Pepsico	Dairy products, Seafood products, snacks, beverages	2,081	United States	Retail, HRI
14	Seara	Meat and by-products, prepared meals	1,753	Brazil	Retail, HRI
15	Marfrig	Meat and by-products, prepared meals	1,642	Brazil	Retail, HRI
16	Aurora Alimentos	Meat and by-products, prepared meals, dairy products	1,628	Brazil	Retail, HRI
17	Minerva	Meat products	1,565	Brazil	Food Industry, Retail, HRI
18	Hypermarcas*	Sugar, prepared meals, condiments, confectionary products, prepared vegetables	1,540	Brazil	Retail, HRI
19	Cosan*	Sugar	1,341	Brazil	Food Industry, Retail, HRI
20	Schincariol	Beverages	1,221	Brazil	Retail, HRI
Source: Maiores e Melhores 2010, Revista Exame					
Note: Exchange rate in December 3 rd , 2010: US\$1 = R\$ 1.6860					
*Non-food products sales are also included in the gross sales of this company					

Major suppliers of ingredients for the local food industry are:

- ACIDS (CITRIC AND OTHERS): Bandeirante Brazmo, Doce Aroma, Makeni Chemicals,

Quiesper, Atrium, Great Foods, Hora, Kerry, Quiesper, Atias Quimica, Ativa Quimica, Buschle & Lepper, Aboissa, Adtec, Agro Química, Arinos, Cargill, DVA Quimica, Funcional Mikron, Granotec, HVR, Indukern, ISP / Germinal, M. Cassab, Metachem, N&B Ingredientes, Oxiquim, Pantec, Probiotica, Sweetmix, Tate & Lyle, Tradal Brazil, Vogler, Amonex, Rosario Quimica, Kraki, Nutri.Com

- ACIDIFIERS AND/OR ACIDITY ADJUSTERS: Atrium, Doce Aroma, DVA Quimica, Hexus, M. Cassab, Metachem, Nutri.Com, Oxiquim, Tate & Lyle, Vallens, Aboissa, Adtec, Cargill, Clariant, Dfuncional Mikron, HVR, Kraki, Pantec, Tradal Brazil, Vivare
- ALGINATO: Danisco, Fermentech, FMC Quimica, Hora, Interlab, Masterense, Vogler
- AMIDES: Agromandil, Carino Ingredientes, Duas Rodas, Inam, Tradal Brazil, Uniamerica, Clariant, Great Foods, Ricsel, Labonathus, Metachem, Moinho Romariz, National Starch, Tate & Lyle, Quiesper, Arinos, Cargill, Romanus
- ANTIFOAMING: Buschle & Lepper, Comarplast Aditivos, Dohler, HVR, ISP/Germinal, Makeni Chemicals, Plury Quimica, Wacker Quimica
- BASES FOR BEVERAGES: Alimentech, Wild, Atrium, Cargill, Citropoli, Dohler, Duas Rodas, HVR, Tovani Benzaquem
- BICARBONATE: Atias Quimica, Bandeirante Brazmo, Buschle & Lepper, Doce Aroma, Funcional Mikron, IPC do Nordeste, ISP/Germinal, Makeni Chemicals, Pantec, Plury Quimica, Quiesper, Romanus, Rosario Quimica, Tradal Brazil
- CAFFEINE: Bandeirante Brazmo, Doce Aroma, DVA Quimica, Ecotag, Funcional Mikron, HVR, Iberoquimica, M. Cassab, Prozyn, Sweet Mix
- CHEMICAL ADDITIVES: Aboissa, Adtec, BKG Adicon, Danisco, Doce Aroma, DVA Quimica, Fermentech, Great Foods, Fuchs, Hexus, HVR, Iberoquimica, ISP/Germinal, Kraki, Laboratorio Exato, M. Cassab, Makeni Chemicals, Metachem, N&B Ingredients, Nutri.Com, Plury Quimica, Pman, Probiotica, Prozyn, SweetMix, Tovani Benzaquem, Tradal Brazil, Vivare, Vogler
- COCOA: All Spices, Atias Quimica, Barry Callebaut, Doce Aroma, Great Foods, ISP/Germinal, Matrix Ingredientes, Mavalério, Plury Quimica, Romanus, Tradal Brazil, Uniamerica
- CONDIMENTS/SEASONINGS/SPICES: Aboissa, Adtec, Bela Vista, BKG Adicon, Citromax, Duas Rodas, Farm Direct Food, Fermentech, Firace, Fuchs, Gemacom, ISP/Germinal, Kraki, Laboratorio Exato, Liotecnica, Moinho Romariz, Nutri.Com, Ottens Flavors, Proaroma, Quiesper, Quimer, Seifun
- EMULSIFIERS: Adimix, Adtec, Agro Quimica, BKG Adicon, Cognis do Brasil, Comarplast

Aditivos, Danisco, Doce Aroma, Duas Rodas, DVA Quimica, Fermentech, Fuchs, Gemacom, Genkor, Globalfood, Granotec, Great Foods, Hexus, Hora, Horizonte Amidos, Interlab, Kraki, M. Cassab, Makeni Chemicals, Masterense, Metachem, National Starch, Nutri.Com, Oxiteno, Plury Quimica, Pman, Proaroma, Prozun, Purac Sinteses, Puratos, Quiesper, Romanos, Tradal Brazil, Uniamerica

- ESTABILIZERS: Aboissa, Adimix, Adtec, AEB Bioquimica, Agargel, Bela Vista, BKG Adicon, Cargill, Collois, Danisco, Duas Rodas, DVA Quimica, Gemacom, General Ingredients, Globalfood, Great Foods, HVR, M. Cassab, Labonathus, Makeni Chemicals, Masterense, Nutramax, Tate & Lyle, Tradal Brazil, Vogler
- FLAVORS/FLAVORING: Alphataste, Arinos, Bell Flavors, Biointer, BKG Adicon, Cargill, Citroflavor, Citromax, Doce Aroma, Dohler, Duas Rodas, Firmenich, Fuchs, Gemacon, Givaudan, Grasse, Great Foods, Hora, Iceberg, ISP/Germinal, Kraki, Mane do Brasil, Masterense, Matrix Ingredients, Ottens Flavors, Pantec, Proaroma, Sweetmix, Vivare
- FLAVORS ENHANCERS: Alphataste, Bell Flavors, BKG Adicon, Duas Rodas, Firmenich, Fuchs, Gemacon, Givaudan, Grasse, Great Foods, Hvr, Kraki, Mane do Brasil, Masterense, Ottens Flavors, Proaroma, Vivare
- HUMECTANT INHIBITORS: Doce Aroma, DVA Quimica, M. Cassab, Makeni Chemicals, Plury Quimica, Tradal Brazil
- PRESERVERS: Aboissa, Adtec, BKG Adicon, Danisco, Doce Aroma, DVA Quimica, Fermentech, Fuchs, Great Foods, Hexus, HVR, Iberoquimica, ISP/Germinal, Kraki, Laboratorio Exato, M. Cassab, Makeni Chemicals, Metachem, Pman, Probiotica, Prozyn, Quiesper, Sweetmix, Tradal Brazil, Vivare, Vogler
- PROTEIN (ANIMAL/VEGETABLE): Alibra, Arinos, Beltecnologia, Indukern, Interlab, Makeni Chemicals, Nutri.Com, Pantec, Quiesper, Solae, Tovani Benzaquem
- OILS/VEGETABLE FATS: Comarplast Aditivos, Duas Rodas, Quiesper, Aboissa, Agropalma, Bunge Alimentos, Cargill, Great Foods, Loders Croklaan, Masterense, Matrix Ingredientes, Mavalério, Plury Quimica, Tradal Brazil
- OXIDATING PREVENTING PRODUCTS: Aboissa, ADM Brasil, Adtec, AEB Bioquimica, BKG Adicon, Cognis do Brasil, Danisco, Dohler, DSM, Fuchs, Globalfood, Iberoquimica, Indukern, Kemin, Kraki, M. Cassab, Masterense, Prozyn, Sweetmix
- SWEETNERS: Aboissa, Ajinomoto, Cargill, Doce Aroma, Dohler, Gemacom, Great Foods, HVR, ISP/Germinal, M. Cassab, Masterense, Novamérica, Sweetmix, Tate & Lyle, Tovani Benzaquem, Tradal Brazil, Vogler
- TECHNOLOGY AIDES/ENZIMES: AB Enzimas, Ajinomoto, Bela Vista, CHR. Hansen, Cognis do Brasil, Danisco, Globalgood, Grantoex, Hexus, Masterense, Prozyn, Tovani Benzaquem,

Vivare, Vogler

- TOPPINGS/SYRUPS/FILLINGS: Adimix, Granus, Mavalério, Duas Rodas, Iberoquímica, Kraki, Blend Coberturas, Gemacom, Hexus, Tradal Brazil,
- THICKENERS: Agargel, Bandeirante Brazmo, BKG Adicon, Danisco, Doce Aroma, Fermentech, Gemacom, Globalfood, Great Foods, Hexus, Hora, HVR, M. Cassab, Metachem, Quiesper, Tovani Benzaquem, Tradal Brazil, Vivare, Vogler
- WHEAT FLOUR/GERM: Anaconda, Bunge Alimentos, Great Foods, Grupo Dallas, Matrix Ingredients, Romanus, Tradal Brazil
- WHEY: Alibra, Conaprole Brasil, ISP/Germinal, Kraki, Pantec, Probiotica, Tangará Foods, Tradal Brazil
- YEAST: Bio Springer, Biorigin, Interlab, Novamérica, Pantec, Tecnape

SECTION III. COMPETITION

The majority of Brazilian imports come from Mercosul countries and Chile. According to the Foreign Trade Secretariat (SECEX), Argentina, Uruguay and the United States are the three top exporting countries of intermediate agricultural products. In 2009, these countries accounted for 38.3 percent, 12.7 percent and 7.3 percent, respectively.

Imports of Intermediate Agricultural Products (US\$ Million)				
	2007	2008	2009	2009 Share
Argentina	1,665	2,076	1,418	38.3%
Uruguay	192	279	469	12.7%
United States	269	531	272	7.3%
Paraguay	119	269	253	6.8%
Others	948	1,584	1,295	35%
World	3,192	4,740	3,708	100%
Source: Foreign Trade Secretariat (SECEX)				

Mercosul companies benefit from a tax free agreement among the member countries and Chilean companies face reduced taxes as a result of bilateral agreements. Imports of ingredients from Non-Mercosul countries do occur, but the market is more challenging for U.S. exporters due to high tariffs and transportation costs. The table below lists agricultural ingredients and products to which the United States has a major market share or potential to enter the market.

Product Category	Share of Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Fish and Seafood	1 st . Chile -	Chile faces	Brazil does not have salmon

Total imports: US\$ 502 mi	28% 2 nd . Norway - 22% 16th. U.S. - 0.02%	reduced import tax. Norway is known as high quality salmon supplier.	production. However, U.S. has to overcome tariffs and high transportation costs.
Dairy Products Total imports: US\$ 366 mi	1 st . Argentina - 46% 2 nd . Uruguay - 23% 5th. U.S. - 3.5%	Argentina and Uruguay enjoy duty free status.	Brazilian industry is improving quality of ingredients. U.S. ingredients are considered high quality and innovative
Fruit Total imports: US\$ 286 mi	1 st . Argentina - 57% 2 nd . Chile - 18% 5th. U.S. - 6%	Chile faces reduced import tax and Argentina enjoys duty free status.	U.S. has to overcome tariffs and high transportation costs
Processed Fruit and Vegetables Total imports: US\$ 500 mi	1 st . Argentina - 31% 2nd. U.S. - 15%	Argentina enjoys duty free status	U.S. is already a large supplier of processed fruit and vegetables. In order to increase this share, U.S. has to overcome tariffs and high transportation costs
Wheat Total imports: US\$ 1,768 mi	1 st . Argentina - 54% 2 nd . Paraguay - 19% 5th. U.S. - 3%	Argentina and Paraguay enjoy duty free status	In 2008, U.S. made up 13% of value of imported wheat due to the below-average Argentine crop and adverse weather conditions. U.S. has to overcome tariffs and high transportation costs.
Wine Total imports: US\$ 196 mi	1 st . Chile - 34% 2 nd . Argentina - 22% 10th. U.S. - 0.03%	Chile faces reduced import tax and Argentina enjoys duty free status.	U.S. has to overcome tariffs and high transportation costs. Investments in marketing are also needed.
Confectionary Products Total imports: US\$ 82 mi	1 st . Argentina - 41% 2 nd . Ecuador - 15% 10th. U.S. - 2%	Ecuador faces reduced import tax and Argentina enjoys duty free status.	U.S. has to overcome tariffs and high transportation costs

SECTION IV. BEST PRODUCT PROSPECTS

A. Products present in the market which have good sales potential

- Fresh, dried and processed fruits
- Nuts
- Dairy products
- Preservatives
- Natural and artificial flavors
- Sweeteners and beverage bases
- Emulsifiers
- Stabilizers
- Thickeners
- Food colors
- Flavors

B. Products not present in significant quantities, but which have good sales potential

- Ingredients for functional foods
- Natural ingredients
- Oils and fats
- Fibers
- Fish and by-products
- Wine
- Wheat
- Healthy and Functional Foods
- Pre-prepared meals

C. Products not present because they face significant barriers

In Brazil, food and beverage products are under jurisdiction of Ministry of Agriculture, Livestock, and Food Supply (MAPA) and the Ministry of Health (MS). Currently, poultry and meat imports are banned and considerable restrictions exist for products containing ingredients derived from biotech commodities. U.S. processed beef is authorized to be imported in Brazil.

Brazilian food and beverage legislation is harmonized with CODEX Alimentarius (www.codexalimentarius.net), which provides guidelines and standards recommended by the United Nations to protect health. U.S. ingredients exporters should check for compliance with the national requirements before exporting to Brazil as there are differences between standards established by the U.S. regulatory agency (FDA) and CODEX.

SECTION V. POST CONTACT AND FURTHER INFORMATION

Please do not hesitate to contact the offices below for questions or comments regarding this report or request assistance to export ingredients or processed food products to Brazil:

U.S. Agricultural Trade Office (ATO)
U.S. Consulate General
Rua Henri Dunant, 700
04709-110 Sao Paulo – SP
Tel: (55 11) 5186-7400
Fax: (55 11) 5186-7499
E-mail: atosapaulo@usda.gov
atobrazil@usdabrazil.org.br
Home Page: www.usdabrazil.org.br

Office of Agricultural Affairs (OAA)
U.S. Embassy
Av. das Nacoes, quadra 801, lote 3
70403-900 Brasilia - DF
Tel: (55 61) 3312-7000
Fax: (55 61) 3312-7659
E-mail: agbrasilia@usda.gov